CHINA’S GROWING OUTWARD DIRECT INVESTMENT: 
A QUANTITATIVE ANALYSIS OF THE POLITICAL IMPACT

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By

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ABSTRACT

To capture the political impacts of China’s outward direct investment (ODI) in Southeast Asia, this study investigated the relationship between China’s ODI amounts in 10 Southeast Asian countries and their voting behaviors in the United Nations (UN) General Assembly (GA). Given that Japan and China are competing for greater economic and political influence in Southeast Asia, I also examined whether China’s growing ODI will push countries away from voting in alignment with Japan in the UN GA. Adopting a country fixed effects model, I found that a larger amount of foreign direct investment from China is correlated with a greater likelihood of the recipient country voting in alignment with China and voting differently from Japan. An alternative year fixed effects model suggests the same result in terms of recipient countries voting in alignment with China. However, this model differs from the country fixed effects model in that it suggests that the recipient country will actually vote more in alignment with Japan when receiving larger amounts of investment from China.
ACKNOWLEDGEMENTS

This thesis would not have been possible without the patient and brilliant guidance from my advisor, Thomas Wei. I would also like to thank Prof. Andreas T. Kern for inspiring me to write about Chinese political economy and Erik Voeten for providing me with the great dataset. Finally, special thanks to David Ma who encouraged me along the way and helped me with any statistical problems, and my parents, Jie ZHANG and Tong LI, for their forever steady support for all my educational and career pursuits.
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I. INTRODUCTION

China has long been a top destination for foreign direct investment (FDI); it overtook the United States of America in 2014 and became the world’s largest recipient of FDI, with inflows reaching $129 billion, a 3.7 percent increase compared to 2013 (World Investment Report 2015). However, China realized that being the largest recipient of FDI could at best help it become a bigger “world factory,” rather than a respected world power. Backed by its large foreign exchange reserves, China formally initiated the “Going-out Strategy” in 2000 (Chou, 2011), aiming to further expand its economic and political power around the world.

One important component of the “Going-out strategy” was to encourage domestic Chinese firms to invest overseas. As Wu Bangguo, the head of the National People’s Congress, stated in 2001, “China will encourage competitive enterprises to ‘go global’ by investing abroad” (Ding, 2010). Coupled with plenty of state policies, China’s outward direct investment (ODI) flows have seen significant growth in recent years, going from less than $100 million in flows in the 1980s to $56.53 billion in 2009, making China the fifth largest originator of ODI, by volume (Ding, 2010). Noted here FDI often refers to direct investment coming into China from other countries whereas ODI refers to outward investment initiated by China, but the nature of the investment is the same.

The bulk of China’s initial ODI was made by the country’s state-owned enterprises (SOEs), particularly those administrated by the central government’s ministries and agencies (Center for Strategic & International studies).
This has made many countries worry about the intention behind the increasing amount of investment. Indeed, while China wants high financial return from investing overseas, it also intends to use investment as a tool to expand its geopolitical influence as many developed countries do (Luo, 2009).

China’s “Going-out strategy” has increased in both depth and breadth recently: it initiated the “One belt, one road” Initiative and formed the Asian Infrastructure Investment Bank to build better platforms for domestic companies investing abroad (Sutter, 2015). These initiatives have alarmed many countries, especially countries like the U.S. and Japan, concerning that China is trying to become a regional hegemon (Shambaugh, 2004).

A large volume of literature has studied how China may be using ODI as a tool to extend its political influence. However, whether China’s ODI actually enhances its political influence over other countries has yet to be studied empirically.

This thesis intends to answer this question by examining China’s ODI in Southeast Asian countries and how it correlates with these countries’ voting patterns in the United Nations General Assembly.

II. LITERATURE REVIEW

Political objectives of China’s ODI

Recent exponential growth in Chinese ODI has attracted the attention of many scholars. The research conducted so far mainly focuses on three interdependent aspects of China’s ODI: (1) determinants of the investment destinations, (2) role of the state and how institutional factors shape
Chinese firms’ ODI, and (3) whether overseas investment helps Chinese companies improve domestic productivity (technology spillover effect). Given the political economy aspect of my thesis, I mainly review studies related to the first and second aspects.

Private companies decide where to invest largely based on which countries will likely yield a high return on investment; however, this is not the case with large state-owned enterprises (SOEs), as their biggest shareholder is the national government. In China, SOEs not only play the most important role in the domestic economy, they are also the largest component of China’s ODI in terms of capital stock flow (Dong, 2013). In 2006, 83% of China’s non-financial ODI was conducted by SOEs (Yueng and Liu, 2008). The distinction between financial ODI and non-financial one is important because whereas financial ODI is often associated with speculative moves that may not be welcomed by the authorities of the recipient countries, non-financial ODI often invests in capital that can help local economic development and thus would more likely to be viewed favorably by local authorities. Thus, China’s growing ODI is likely to be motivated not only by financial considerations but also by political considerations. Political objectives may include enhancing geopolitical influence over recipient countries and securing better access to their natural resources.

Yadong and Luo (2010) studied the political and regulatory institutions that manage Chinese ODI and found that policies related to ODI are mainly set forth by the central government agencies. This direct involvement helps the central government further national interests such as fortifying diplomatic ties with strategically important countries (Ren et al, 2012; Yang et al, 2014).

Buckley et al. (2007) was among the first researcher that attempted to quantify the factors motivating China’s ODI. Their findings were consistent with the traditional FDI theory that market
size, geographic proximity, and market openness are important determinants of China’s ODI. However, what was more puzzling was why China appeared to favor investing in countries with higher political risks. They suggested that it was because these countries have rich natural resources, which China could access with greater ease if it invested heavily there. Their research findings have been confirmed by subsequent studies (Kaplinsky, 2012; Keller, 2012).

Most of the related literature has used qualitative methods to investigate whether China is using ODI to gain greater political influence. Any quantitative studies generally have not incorporated variables that are good proxies for political influence into their regression models.

**China-ASEAN**

Several authors have tried to quantitatively examine how China’s motivations behind its growing ODI vary across regions. Gayle Allard (2012) investigated the determinants of China’s ODI in Africa and found that China’s ODI is motivated by getting access to natural resources and is more likely to flow to countries with corrupt governments. Zhao and Liu (2010) examined China’s ODI in eight developed countries from 1991 to 2007 and showed that the main reason for investing in advanced economies is to gain efficiency. However, when it comes to Asia, the region that accounted for 51.2% of the total number of Chinese firms investing overseas in 2008 (Chou, 2011), not many studies have used quantitative methods to look at China’s ODI. In fact, thanks to the geopolitical dynamics between China and Japan, Southeast Asia is a region where the study of the political motives behind China’s ODI might be fruitful.

Although it may not be a zero-sum game between China and Japan, the two regional powers
have deep-rooted historical and sovereignty disputes, making many Southeast Asian countries geopolitically important to both countries (Sudo, 2009). This is why the two countries often implement policies that are strategically against each other to counterbalance each other’s influence (Hong, 2015). David Hoyrup (2010) argued that the battle between the two powers is being waged because both wanted to acquire the status of regional leader, which may be achieved by gaining closer ties with the Association of Southeast Asian Nations (ASEAN). Hence, while this theory has yet to be empirically tested, it is plausible to that China’s ODI in ASEAN is more political-oriented than financial-oriented (Sudo, 2009; Hoyrup, 2010).

**UN Vote**

To conceptualize the political influence for empirical analysis, abundant literature has turned to the voting records at the United Nations General Assembly (UNGA). This literature has used whether two countries vote in the same way to indicate whether they are politically aligned (Mann-Bosch, 1987; Wang, 1999; Alesina, 2000; Hosli 2010; Kim, 2010; Kuziemko 2006; Dreher, 2008; Ferdinand, 2014; Carter, 2015). For example, studies (Axel, 2008; Carter and Randell, 2015) have shown that a greater amount of aid provided by the U.S. is correlated with a higher probability of the recipient country voting in alignment with the U.S. on critical UN resolutions.

Japan appears to have adopted similar methods to enhance its political influence in Asia. Under Prime Minister Abe, Japan has attempted to transform the mainly commercial-oriented Japan-ASEAN relations into a multifaceted one that entails mutual cooperation with political and strategic elements (Hong, 2015). Daniel Yew Mao Lim and James Raymond Vreeland (2013)
conducted one of the few quantitative studies to explore Japan’s regional influence. They quantified the correlation between Asian Development Bank loan amounts and the probability of the recipient countries being a member of the United Nations Security Council (UNSC), with one-year lag on the loan amount. The results suggest that Japan has used the Asian Development Bank as a tool to facilitate favorable loans to countries useful for its broader foreign policy goals at the UNSC. The study strategically chose the UNSC as a venue to look at, as Japan is not a permanent member of the UNSC but has long sought to become one to increase its influence over global security issues. Their study reaffirmed the results from Kilby (2006) that donor influences are even more persistent in the Asian Development Bank than in the World Bank.

**Summary**

The literature reveals several gaps in existing studies that examine the political economy of China’s ODI: (1) most studies looked at whether China’s ODI is political motivated, but few of them examined whether China’s ODI actually increases its political influence; (2) most research that investigated the political influence of countries’ ODI studied developed countries like Japan and the U.S.; (3) most literature that studied the rival relations between Japan and China adopted qualitative methods, as opposed to quantitative methods.

Asia is an ideal place to examine the political influence of China’s ODI, not only because the rivalry between Japan and China likely motivates China’s ODI to be more politically oriented, but also China’s influence in ASEAN countries has been argued to surpass that of Japan (Gemba, 2012). My study, therefore, intends to fill the gap in the literature by examining whether China’s increasing
ODI in ASEAN countries is associated with these countries more likely voting against Japan in the UNGA (and/or voting in alignment with China).

III. CONCEPTUAL MODEL

Figure 2. Conceptual Model

1. The “+” and “-” represent the likelihood of recipient countries’ alignment with China/Japan on international issues
2. The “?” indicates the research question of this study: will the increase in China’s ODI to ASEAN countries, while Japan maintaining similar ODI level, motivate recipient countries to align more closely with China on international issues (and/or deviate from Japan)?

Historic disputes have set the foundation for the rivalry between China and Japan. In recent years, the rivalry between the two countries has become more profound (Sudo, 2009; Hoyrup, 2010; Kim, 2010; Teh, 2011; Hong, 2015), which can be best exemplified by the two countries’ interactions with ASEAN.
In the 1960s and 1970s, China attempted to interfere in ASEAN countries by fostering the spread of revolution, which led to years of mistrust from ASEAN countries. The assertive foreign policies pushed the Southeast Asian countries toward joining an anti-China coalition, including countries like Japan and the U.S. (Glosny, 2006). In the meantime, Japan invested heavily in Southeast Asia and gave large amounts of financial aid to these countries during financial crises (Glosny, 2006). These led to Japan’s solid position to wield influence in Southeast Asia (Sutter, 2015). However, things may have changed in the past few decades: China has seen rapid economic growth since its 1978 reform and has increased its trade and direct investment in Southeast Asian countries exponentially in the past two decades (Salidjanova, 2015). China is now ASEAN’s largest trade partner, and its influence in ASEAN countries has been argued to surpass that of Japan (Gemba, 2012). China has also begun to increase its aid and development assistance to other Asian nations (Shambaugh, 2004).

Since 1997, Japan has gradually shifted its foreign policy to seek a more active role in Southeast Asia to counter China’s growing influence. In 2007, Japanese President Abe delivered a speech titled “Japan and One ASEAN that care and share the heart of dynamic Asia” in which he emphasized three policies toward ASEAN: implementation of the Economic Partnership Agreement; promotion of the Mekong River region; and assistance in peace building. The Mekong River initiative has been considered a policy designed to counter the Greater Mekong Sub-region (GMS) project initiated by China in 1992 (Teh, 2011) that covers Cambodia, Laos, Myanmar, Thailand, and Vietnam. In line with China’s Going-out policy, GMS expanded to include the development of the GMS North-South Economic Corridor while the Mekong-Japan Economic and Industrial
Cooperation Initiative only covers the East-West and Southern Economic corridors. This mutual exclusion reflects the tension between Japan and China. Both wish to wield greater economic and political influence over the region.

Southeast Asia has been an area on China’s periphery that is of vital importance to China’s national security and economic development (Glosny, 2006). Therefore, it is critically important for China to make sure these neighbors stand beside China, and investment is a tool China may use to achieve this goal. I argue in my thesis that the rapid growth in China’s investment in ASEAN may re-shape the geopolitical map of Southeast Asia – motivating more ASEAN countries to vote in alignment with China or against Japan on many controversial issues. The reason for adding voting against Japan as an alternative to voting in alignment with China is because, although China’s ODI in these countries has grown exponentially, Japan’s ODI net flow in ASEAN is still the highest across Asia (the preliminary figure for Japan’s FDI net flow in ASEAN is $13,381 million while China’s is $8,869 million, according to ASEAN data). However, this increase may pose a threat to Japan’s established dominance in the region and is likely to shape the political alignment.

IV. EMPIRICAL STRATEGY & HYPOTHESES

United Nations General Assembly roll call voting provides an avenue to study the alignment of various countries in international politics (Kim, 1996). Because UN resolutions are not legally binding, it is generally believed that countries are voting to symbolically signal their political stance, thus they are “expressive rather than instrumental” (Dreher, 2011). By looking at countries’ voting alignment record, we can analyze political preferences among member states (Dreher, 2008;
Ferdinand, 2014; Carter, 2015).

The ideal situation is to identify the UN resolutions that deal with issues that are critical to Asia or on which China and Japan have split opinions. However, neither Japan nor China keeps a record of resolutions important to them, which makes the ideal research method infeasible.

Therefore, I will study the voting patterns of Southeast Asian countries on all General Assembly resolutions, which deal with economic development, international security, and human rights. Most resolutions at the General Assembly are automatically adopted without any voting, therefore resolutions being voted upon are usually more politically controversial among member countries. Therefore, studying the voting consistency among countries on all voted resolutions is still an effective, if not ideal, method to measure political alignment.

To accurately measure voting alignment, for each of 10 ASEAN countries (Brunei, Cambodia, Indonesia, Laos PDR, Malaysia, Myanmar, Philippines, Thailand, Singapore, and Vietnam), I calculate the Index of Voting Cohesion (IVC) with Japan. I then do the same for each of these 10 countries with China. The IVC formula for each country pair is given by:

\[
IVC = \frac{(f + \frac{1}{2}g)}{t} \times 100
\]

where \(f\) denotes the number of cases in which an A-B pairs of states vote identically (e.g., both vote ‘yes’, ‘no,’ or ‘abstain’). In my case, the A-B pairs will be Japan-Brunei, Japan-Cambodia, Japan-Indonesia, Japan-Laos PDR, Japan-Malaysia, Japan-Myanmar, Japan-Philippines, Japan-Thailand, Japan-Singapore, and Japan-Vietnam; a similar pairing applies to China with the 10 ASEAN countries; \(g\) denotes the number of votes in which each A-B pair of states displays partial
cohesion (e.g., A votes ‘yes’ or ‘no,’ whereas B abstains) and t is the total number of votes in which each A-B pair of states participates (Hurwitz, 1975). IVC can be roughly treated as the percentage of resolutions in which two countries are aligned, with a range from 0 to 100 – 100 indicating perfect alignment and 0 indicating perfect misalignment.

IVC will be the dependent variable in the main regression, and China’s ODI from 1990 to 2012 will be the independent variable of interest. I express the ODI amount relative to the recipient country’s GDP. Year and country fixed effects are also incorporated into the model to allow comparisons within the same year across countries or within the same country across years. More specifically, to examine the relationship between countries’ political alignment with Japan or China and investment amounts from China, I will run the following four regressions:

1. \[IVC_{\text{japan-i}} = \beta_0 + \beta_1 \cdot \frac{\text{ODI amount}_{it-1}}{\text{GDP}_{it-1}} + \text{year}_t + \epsilon_{it}\]

2. \[IVC_{\text{japan-i}} = \beta_0 + \beta_1 \cdot \frac{\text{ODI amount}_{it-1}}{\text{GDP}_{it-1}} + \text{country}_i + \epsilon_{it}\]

3. \[IVC_{\text{china-i}} = \beta_0 + \beta_1 \cdot \frac{\text{ODI amount}_{it-1}}{\text{GDP}_{it-1}} + \text{year}_t + \epsilon_{it}\]

4. \[IVC_{\text{china-i}} = \beta_0 + \beta_1 \cdot \frac{\text{ODI amount}_{it-1}}{\text{GDP}_{it-1}} + \text{country}_i + \epsilon_{it}\]

<table>
<thead>
<tr>
<th>Variable</th>
<th>Specification</th>
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<tbody>
<tr>
<td>IVC_{\text{japan-i}}</td>
<td>Country i’s voting consistency with Japan in year t</td>
</tr>
<tr>
<td>IVC_{\text{china-i}}</td>
<td>Country i’s voting consistency with China in year t</td>
</tr>
<tr>
<td>ODI amount_{it-1}</td>
<td>Investment amount county i received from China in year t-1</td>
</tr>
<tr>
<td>GDP_{it-1}</td>
<td>Country i’s GDP in year t-1</td>
</tr>
<tr>
<td>Year_t</td>
<td>Year t dummy</td>
</tr>
<tr>
<td>Country_i</td>
<td>Country i dummy</td>
</tr>
<tr>
<td>\epsilon_{it}</td>
<td>Random error term for country i in year t</td>
</tr>
</tbody>
</table>

Based on the literature review and conceptual model, I expect that the more investment a country receives from China, the more likely it will vote against Japan on the international stage (and
to vote in alignment with China). Therefore, my hypothesis is:

In equations 1 and 2: $\beta_1 < 0$; in equations 3 and 4: $\beta_1 > 0$.

V. DATA DESCRIPTION

The official data for China’s ODI comes from the United Nations Conference on Trade and Development (UNCTAD). The time-series data document the annual bilateral ODI amount from China to each of the 10 ASEAN countries. China’s ODI figures are available from 2000 to 2012 (13 years), which yields 130 country-by-year observations.

To gauge the role China’s ODI plays in these countries’ national economies and eliminate the effect of possible inflation, I use ODI amounts as a proportion of the national GDP within the same year as the independent variable in interest. The GDP data is gathered from the World Bank.

Figures 3 and 4 visualize the trend in China’s average ODI across the 10 ASEAN countries:

Figure 3. *Average China’s ODI in 10 countries across 13 years*

Figure 4. *Average ODI/GDP in 10 countries across 13 years*

Figure 3 is the average total ODI amount (in millions of U.S. dollars), and Figure 4 depicts the average ODI as a percentage of the recipient country’s GDP. Although there are some dips likely because of recessions in 2007 and 2008, there is generally an upward trend in China’s ODI since
Among all 10 ASEAN countries, if calculated the average ODI/FDI across 13 years, Myanmar and Indonesia receive the most direct investment from China, accounting 3.3% of their GDP, while Brunei, Thailand, Malaysia receive the least investment in terms of ODI/GDP, approximately 0.05% of their GDP (Figure 5).

Data on UNGA voting records are from the United Nations General Assembly Voting Database assembled by Erik Voeten.¹ These panel data record all the roll-call votes on various issues in the UNGA from 1946 to 2014. Voting alignment with China, if any, may take some time to manifest after any changes in ODI. Thus, I retrieved voting data from 2001 to 2013 (1 year lag) to correspond with my FDI data from 2000 to 2012. I calculated the Indexes of Voting Cohesion (IVC) according to the formula

$$IVC = \left( \frac{f + \frac{1}{2} g}{t} \right) \times 100$$

for each country in every given year. From 2001 to 2013, 936 resolutions were voted on, or an average of 72 resolutions per year. The average countries’ IVCs with Japan and theirs with China IVC across these 13 years are displayed in Table 1, and the IVC between Japan and China is shown in Table 2.

¹Erik Voeten "Data and Analyses of Voting in the UN General Assembly" Routledge Handbook of International Organization, edited by Bob Reinalda (published May 27, 2013).
Many may think that the votes at the UNGA cannot indicate the level of political alignment, as the resolutions are less controversial than the ones voted on at the Security Council. However, from Table 1, we can see that on average, countries tend to vote more in alignment with China than with Japan. And according to Table 2, the percentage of China and Japan agree on certain international issues is under 60%. Therefore, the certain degree of conflict of interest between China and Japan can be represented in UNGA voting results.

Figure 6 represents the trends of country voting align with China and Japan. Figure 6 shows the average IVC of 10 countries (the blue line represents voting alignment with China, and the red line represents voting alignment with Japan). The figure again shows that the 10 ASEAN countries generally have more voting
alignment with China than Japan and that the alignment was somewhat stable over time. That being said, there does appear to be some variation in IVC, especially in more recent years. To further investigate the relationship between countries’ IVCs with Japan and theirs with China, I run correlations for Japan IVC and China IVC separately for each country, and results are shown in Table 3. The results suggest that for some countries, voting more in alignment with China is correlated with them voting less similar to Japan.

Whether this variation may be explained by China’s changing ODI amounts requires us to more systematically examine changes in voting alignment across years and to examine differences in voting alignment across countries, which I do in the next section.

VI. RESULTS

To examine the relationship between countries’ political alignment with Japan or China and investment amount from China, I ran the four regressions documented in the empirical strategy section. The results are summarized in Table 4.

Table 4. Fixed Effect Model Coefficient Estimates of the Relationship between FDI/GDP and Countries’ Voting Alignments

<table>
<thead>
<tr>
<th></th>
<th>Year Fixed Effects</th>
<th>Country Fixed Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
</tr>
<tr>
<td>ODI/GDP ((t-1))</td>
<td>-0.46</td>
<td>1.35</td>
</tr>
<tr>
<td></td>
<td>((5.6))</td>
<td>((3.54))</td>
</tr>
<tr>
<td>Adjusted R(^2)</td>
<td>0.19</td>
<td>0.64</td>
</tr>
</tbody>
</table>
The results suggest that China’s ODI amount is positively correlated with how often the recipient country votes in alignment with China at the General Assembly. Within a given year, a one-percentage point increase in ODI/GDP is correlated with 10 points increase IVC, and the correlation is significant at 0.1 level. Within a given country, the same relationship applies, and it is significant at 0.05 level. From Figure 6, we can see that China’s ODI amount in percentage of the recipient countries’ GDP stays around 1 percentage level since 2010. Increasing the ODI/GDP amount by one percentage point requires a big amount of money. However, a correlated 10 points increase in IVC has a noteworthy political effect, because 10 points explain approximately 40% of the difference between countries’ IVCs with Japan and theirs with China (Table 1). The positive direction of the correlation also goes along with my hypothesis and the existing literature in political economy – China’s ODI is not only economically driven, but also political oriented.

Model 1 and 2 suggest that China’s increasing ODI has no effect on whether a recipient will vote in alignment with Japan or not, given the small coefficients and their statistical insignificance.

In the country fixed effect model (model 2), the reason why the coefficient is positive may be because that Japan’s ODI in these countries are also increasing, given that Japan was still the second biggest foreign investor in the 10 members of the Association of Southeast Asian Nations (ASEAN), after the European Union (Saminather, 2015). Also, because the coefficients in model 1 and 2 are not

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<table>
<thead>
<tr>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>ODI/GDP (t-1)</td>
<td>10.47*</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.17</td>
</tr>
</tbody>
</table>

Notes: Sample size = 130 for all regressions. *** p<0.01, ** p<0.05, * p<0.1. Standard errors (in parentheses) clustered by principal identification number.
statistical significance and are relatively small, the interpretations of the numbers may not yield many meaning implications.

VII. CONCLUSION & DISCUSSION

This thesis examined whether China’s increase in ODI is associated with a shift in political alignment in Southeast Asia, which was proxied by countries’ voting patterns in the UNGA. The results represented in Table 4 suggest that China’s growing ODI amount in Southeast Asia pushes countries closer to China on international issues, but not necessarily further away from Japan.

One possible explanation for these findings is that both China and Japan have been increasing their investments in ASEAN countries, therefore, countries’ voting alignments with both countries, measured by IVC in my study, increase at the same time. It is possible that although average IVC between Japan and China (around 60) is not as high as the ones between ASEAN countries and China (around 80) (see Table 1 and 2), there is not strong conflict of interest between China and Japan on the issues discussed at the UNGA. Therefore, countries can vote the same with both countries on many issues.

However, the coefficients of model 3 and 4, which intend to study the relationship between countries’ IVCs with China and China’s investment amount, are politically significant. The results suggest that a one-percentage point increase in ODI/GDP is correlated with 10 points increase IVC, which explains approximately 40% of the difference between countries’ IVCs with Japan and theirs with China. As China increases its ODI rapidly following the “Going Out Strategy,” many countries are worried about the political implications. Their worries increased when China announced the
“One belt, one road” initiative and the Asian Infrastructure Investment Bank (AIIB). The finding from this research is important because it suggests that there is a political effect associated with China’s ODI policies. Countries that are cautious about China gaining strong political clout may wish to pay attention to China’s ODI to see if there are any discernable increases in the amount or changes across regions, and plan their foreign as well as economic policies accordingly.

There are several limitations of this research. The most critical one would the relative small dataset. By using FDI, an annual indicator, and only focusing on one region, the observations are very limited, which restrains the study to only analyze correlation, greatly reducing the internal validity of the study. Further research can extend the model to all regions and include variables, such as political ideology, economic status, and regime type, to measure factors that can motivate countries to vote in alignment with China at the United Nations. Also, instead of using lagged values, researchers could use a statistical model that counts annual ΔFDI and ΔIVC rather than the actual levels. By doing this, the model can account for reward-punishment mechanism, for example, IVC decreases in the previous year will lead to FDI decrease this year.

Another consideration for future research in this area would be to look at resolutions at venues where more contentious international issues were discussed. Security Council (UNSC) can be a desired place to investigate whether China’s investment could push countries away from Japan on critical international issues, because Japan cannot vote at UNSC, so it always seek countries to represent its interest at the UNSC, ODI could be a tool Japan uses to achieve this goal (Lim, 2013).

As countries become more and more interconnected, big countries are actively seeking political influence to protect their national interests, such as defending their sovereignty and
improving national security, and stimulating their economies. A major way for them to exert political influence is through economic tools, and ODI is definitely a major one. Further quantitative studies that intend to measure the political impact of countries’ ODI, especially from the emerging countries, would add great values to the existing political economy study.
VIII. REFERENCES


Guy Faure (Ed.), *New dynamics between China and Japan in Asia: how to build the future from the past?* (pp. 91 – 123). Singapore: World Scientific.


